

# The One Big Beautiful Bill Act

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After a lengthy legislative process, the One Big Beautiful Bill Act (OBBBA) was passed by Congress and signed into law on July 4, 2025. Many provisions of the Tax Cuts and Jobs Act (TCJA) were originally set to expire at the end of 2025. President Trump campaigned on extending these provisions, and OBBBA achieves this by making many of the TCJA's expiring measures permanent. However, "permanent" in Washington, D.C. means that these provisions lack automatic expiration but can still be modified by future legislation.

## Individual Income Tax Provisions

**State and Local Tax (SALT) Deduction:** TCJA capped the SALT deduction at \$10,000 for 2018 through 2025. OBBBA raises this cap to \$40,000 for 2025, then increases it by 1% annually through 2029. The cap phases down for taxpayers with modified adjusted gross income (MAGI) over \$500,000 but will never fall below \$10,000. The cap reverts to \$10,000 automatically in 2030 unless changed by Congress.

**Standard Deduction, Personal Exemption, and Miscellaneous Itemized Deductions:** TCJA increased the standard deduction and suspended personal exemptions and miscellaneous itemized deductions through 2025. OBBBA makes the increased standard deduction and suspension of personal exemptions permanent starting in 2025 and permanently eliminates miscellaneous itemized deductions beginning in 2026.

**Itemized Deduction Phaseout (Pease Limitation):** Suspended by TCJA through 2025, the Pease limitation is permanently repealed under OBBBA starting in 2026. It is replaced by a new reduction formula for high-income taxpayers, reducing itemized deductions (excluding Section 199A Qualified Business Income deductions) by 2/37 of the lesser of total itemized deductions or the amount taxable income exceeds the threshold for the 37% tax bracket.

**Alternative Minimum Tax (AMT):** TCJA temporarily increased AMT exemption amounts. OBBBA makes these higher exemptions permanent starting in 2026, raises phaseout thresholds to \$500,000 (single) and \$1,000,000 (MFJ), with inflation indexing.

**Enhanced Deduction for Senior Citizens:** OBBBA introduces a \$6,000 deduction for qualifying seniors from 2025 to 2028, allowing each spouse to claim the deduction in a married couple. The deduction phases out by 6% for AGI exceeding \$75,000 (single) or \$150,000 (MFJ).

**Charitable Contributions:** Beginning in 2026, OBBBA imposes a 0.5% floor on itemized charitable deductions, reducing the deductible amount by that portion of AGI. It also makes permanent the TCJA's increase of the AGI limitation for cash donations to public charities from 50% to 60%. For taxpayers who do not itemize, OBBBA creates a permanent above-the-line deduction of up to \$1,000 (single) or \$2,000 (MFJ) for cash donations to public charities starting in 2026.

**Child Tax Credit:** TCJA's increase to the child tax credit through 2025 is made permanent by OBBBA starting in 2026, setting the credit at \$2,200 per qualifying child, indexed for inflation thereafter.

**Deductions for Tip and Overtime Income:** From 2025 to 2028, OBBBA introduces a deduction up to \$25,000 for qualified tip income and up to \$12,500 for qualifying overtime income, with phaseouts for high earners and eligibility extended to non-itemizers. Highly compensated employees and tip income are excluded from the overtime deduction.

**Mortgage and Home Equity Interest:** TCJA capped the mortgage interest deduction at \$750,000 and suspended home equity interest deductions unless used for home improvement or acquisition through 2025. OBBBA makes these provisions permanent starting in 2026.

**Auto Loan Interest Deduction:** From 2025 to 2028, individuals, including non-itemizers, can deduct up to \$10,000 of auto loan interest annually. The deduction phases out for MAGI above \$100,000 (single) or \$200,000 (MFJ). Qualifying loans must meet several requirements, including being the first lien on a U.S.-assembled vehicle under 14,000 pounds.

## Education Savings and Student Loans

**529 Plans:** Starting in 2026, OBBBA expands the definition of qualified expenses for 529 plan distributions and raises the annual cap for K-12 expenses to \$20,000.

**ABLE Accounts:** Beginning in 2026, higher contribution limits for 529A ABLE accounts for employed disabled individuals are made permanent, along with permanent allowance for rolling over 529 plan balances into 529A ABLE accounts.

**Student Loans:** OBBBA limits the maximum federal student loan amounts borrowers can take and phases out existing repayment options. Starting July 1, 2026, new borrowers choose between a standard repayment plan and a new income-driven plan, with existing borrowers transitioning to these plans by July 1, 2028.

## Transfer Taxes

**Transfer Tax Exemptions:** OBBBA permanently increases the estate, gift, and generation-skipping transfer tax exemptions to \$15 million per person starting in 2026, with annual inflation adjustments. This extends the TCJA's temporary doubling of exemptions (2018–2025).

## Business Taxes:

**Qualified Business Income (QBI) Deduction:** Made permanent at 20% starting 2026, with a minimum deduction of \$400 and a \$1,000 minimum QBI requirement. Phase-in thresholds rise to \$75,000 (single) and \$150,000 (MFJ), indexed for inflation.

**Bonus Depreciation:** Permanently set at 100% for qualified property acquired after January 20, 2025.

**Qualified Small Business Stock (QSBS):** The gain exclusion increases to the greater of \$15 million or 10x adjusted basis. A tiered exclusion applies: 50% exclusion after 3 years, 75% after 4 years, and 100% after 5 years. The asset limit rises to \$75 million and will be inflation-adjusted. Rules apply to QSBS issued after July 4, 2025, with gain exclusion effective 2026.

**Executive Compensation:** Expands the definition of “covered employee” for the \$1 million compensation deduction cap to include all members of controlled and affiliated service groups, effective 2026.

## Trump Accounts

**New tax-deferred investment accounts for minors:** like traditional IRAs but without earned income requirements. Effective 2026, contributions are capped at \$5,000 annually (inflation-adjusted) and can be made by various parties until the child turns 18. Employer contributions up to \$2,500 are non-taxable to the employee. Tax-exempt entities may contribute beyond the limit if made uniformly to a qualified group. The government will pilot a \$1,000 one-time credit for qualifying children born 2025–2028. Contributions begin July 4, 2026. Accounts must invest in diversified equity index funds and grow tax deferred. Withdrawals are generally restricted until age 18, after which accounts convert to traditional IRAs with normal tax and penalty rules.

# Definitions

**Above-the-Line Deduction** – A deduction subtracted from gross income to determine adjusted gross income (AGI). Available to all taxpayers, regardless of whether they itemize deductions.

**Affiliated Service Group** – A group of related entities (such as corporations, partnerships, or service organizations) treated as a single employer for certain tax and benefit purposes, including compensation deduction limits.

**Controlled Group** – Two or more corporations connected through common ownership that are treated as one entity for specific tax purposes.

**Diversified Equity Index Fund** – An investment vehicle tracking a broad market index composed of a wide range of equity securities, used to reduce investment concentration risk.

**Earned Income Requirement (Waived)** – For Trump Accounts, contributions are allowed even without earned income, unlike traditional IRAs.

**Inflation Indexing** – Annual adjustment of tax thresholds, exemptions, or limits to reflect inflation, preserving real value over time.

**Phaseout** – A gradual reduction in the value of a deduction or credit as income exceeds specified thresholds.

**Qualified Tip Income** – Tip income reported to an employer that qualifies for the temporary OBBBA deduction, subject to IRS reporting and verification standards.

**Qualified Overtime Income** – Overtime compensation eligible for the OBBBA deduction, excluding highly compensated employees and certain wage categories.

**Tax-Deferred Growth** – Investment earnings (interest, dividends, or capital gains) that accumulate without being taxed until withdrawn.

**Threshold for the 37% Tax Bracket** – The income level at which the top marginal tax rate applies; used in OBBBA's new formula for reducing itemized deductions for high-income taxpayers.

**Uniform Contribution Rule (Tax-Exempt Entities)** – Under Trump Accounts, contributions from tax-exempt organizations must be made uniformly to all qualifying members of a defined group to maintain tax-exempt treatment.

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